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How Will U.S. Trade Be Affected by EC-92?

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PERSPECTIVES

RED MEAT AND POULTRY supplies in the United States are likely to increase in 1991 but prices should continue near record levels. Retail prices of red meats reached record highs in 1990 as production fell. For the year, pork prices are expected to be up about 14 percent and Choice beef prices up 5 percent. Retail poultry prices are estimated to be about 2 percent lower, with broiler and turkey production higher.

Increasing poultry and pork supplies in 1991 are likely to cause poultry prices to decline 4-6 percent and pork prices to fall 1-3 percent, according to USDA's Economic Research Service. Beef production is expected to increase only slightly. Declining prices of competing meats will likely hold beef price gains to 2 percent or less.

Red meat and poultry consumption is expected to increase about 6 pounds per capita in 1991 from the record level of about 220 pounds in 1989 and 1990.

Cattle numbers on July 1 were only modestly above a year earlier, marking the second year of relatively static numbers. The 1990 calf crop was estimated at 40 million head, down slightly from 1989. Producers retained 4 percent more replacement heifers in 1990. Even if a larger proportion of these heifers calve in 1991, the increased calf crop will have little impact on beef supplies or cattle prices until 1992, the economists say.

Table egg production in 1991 is expected to continue the modest gains registered in 1990. Egg consumption of about 234 per capita will likely decline about 1 egg per person for 1990 and again in 1991. Retail egg prices are expected to be down about 2 percent for 1990 and are likely to fall 13–15 percent in 1991.

Projected 1991 U.S. production totals include 23.0 billion pounds of beef, 15.9 billion pounds of pork, 363 million pounds of lamb and mutton, 280 million pounds of veal, 19.5 billion pounds of broilers, and 4.8 billion pounds of turkeys, for total red meat and poultry output of 64.3 billion pounds. Compared with 1988, these totals are 2.0 percent lower for beef, 1.4 percent higher for pork, 10.3 percent lower for lamb and mutton, 27.6 percent lower for veal, 20.9 percent higher for broilers, 21.7 percent higher for turkeys, and 6.5 percent higher for total red meat and poultry.

Projected prices for 1991 are $75-$81 per hundredweight (cwt) for Omaha Choice steers, $49-$55 per cwt for barrows and gilts, $54-$60 per cwt for slaughter lambs, 51-57 cents per pound for broilers, 61-67 cents per pound for turkeys, and 66-72 cents per dozen for eggs. The outlook for feed grains and protein feedstuffs has become more favorable in recent months because of lower feed cost prospects.

The nation's economy continues to grow at a slow pace. Real GNP growth is projected at 1 to 2 percent for the next year. The slower economic growth prospects could affect consumer demand for foods and meats, the economists say. Recently revised (downward) GNP statistics for 1987, 1988, and 1989 indicate growth averaged 3.4 percent per year.

— Jack Harrison

FARMLINE

AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
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FEATURES

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The European Community plans to be a fully unified "Common Market" at the end of 1992. Some Americans are concerned that the result could be a restricting of U.S. exports to the EC, although EC officials have given assurances that this will not be the case.

One-Third of U.S. Farm Exports Go to East Asia *by Jack Harrison* 8

East Asia is the number 1 regional market for U.S. agricultural exports. More than one-third of fiscal 1990 sales were to that region, which consists primarily of Japan, South Korea, Taiwan, Hong Kong.

U.S. Apple Exports Face Uphill Climb *by Priscilla Glynn* 12

U.S. apple production has been increasing, with the farm value of the crop surpassing $1 billion in 1989. But our apple exports have been facing stiffer competition. The U.S. apple industry is seeking to overcome that problem.

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How Will U.S. Trade Be Affected by EC-92?

As the European Community readies its fully unified "Common Market" for a 1992 target date, the American reaction to the unification process has been decidedly mixed.

For U.S. companies with operations based in Europe, optimism and excitement have been the prevailing reactions. For other U.S. firms—which are currently exporting to Europe or would like to—confusion and doubt have dominated.

Many Americans believe an even more powerful economic bloc is being created that will pose increased competition for U.S. goods and services in the EC and in foreign markets.

"Concerns have been raised about some of the EC directives that stem from the 1992 program which could restrict market access in the future," says economist Walter Gardiner of USDA's Economic Research Service. "The label 'Fortress Europe' has been used by a number of U.S. and other non-EC officials to describe the potential market and investment environment that could emerge out of EC 1992 if non-EC nations are not vigilant in monitoring the progress of the directives as they become part of EC commercial law."

The plan has no provisions for liberalizing any of the European Community's external trade barriers.

Broad Range of Barriers

The directives Gardiner has in mind cover a broad range of physical, technical, and fiscal barriers to trade in the EC. By the end of 1992, these barriers are to have been dismantled, completing the common market in the true economic sense by eliminating all internal obstacles to trade.

At the same time, however, the EC 1992 plan has no provisions for liberalizing any of the EC's external trade barriers. Any progress on that front will depend on developments in the current GATT trade talks set to conclude this December.

Even so, says Gardiner, "the adjustments to investment, production, consumption, and trade patterns within the EC in response to the large number of EC 1992 directives will be felt far beyond the EC's borders."

Specifically, he says, "there will be increased opportunities for those able to compete in a deregulated EC economy, especially those companies that are already doing business in the EC and who are making the necessary changes to respond to a pan-European market. Much of the outcome will depend on what level the EC decides to harmonize its product and commodity standards and regulations."

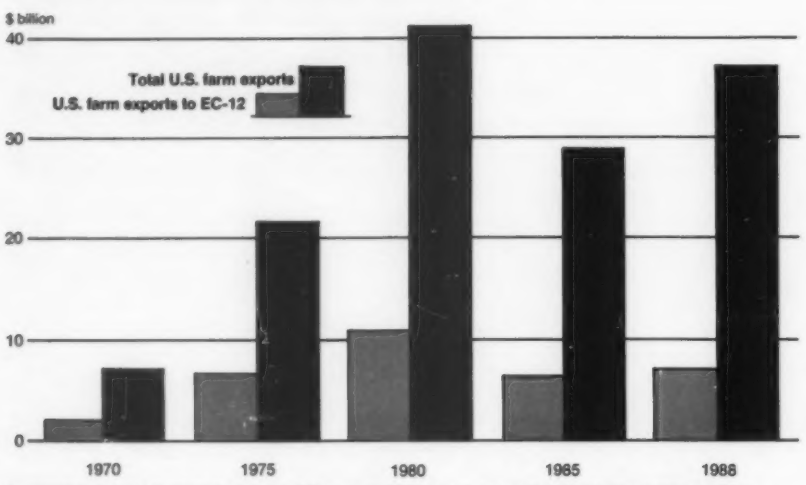
The debate here is between the "minimalists" who advocate the strictest levels possible and the "maximalists" who want to settle more on the average level that exists around the Community.

"For companies such as equipment manufacturers that are required to build as many as eight production lines for tractors because of different regulations in EC countries, any harmonization should be a welcome development," says Gardiner. "This also bodes well for smaller companies that only do business in one or two EC countries because of the prohibitive costs of establishing multiple production lines."

Moreover, he says, eliminating the EC's customs regulations at internal borders should significantly reduce the cost of transporting goods within the Community. "This has important implications for both domestic producers and exporters of food and agricultural products."

But as of now, there are still no clear answers to the critical questions, at least in the American view: Will the EC enact standards and regulations more restrictive than currently in place? Will the EC raise new external barriers against non-EC countries

The Portion of U.S. Agricultural Exports Going to the European Community Has Been Declining



(For consistency, the data are for all 12 current EC members. Denmark, Ireland, and the United Kingdom joined the EC in 1973, Greece joined in 1981, and Spain and Portugal joined in 1986.)

in order to protect EC countries from increased competition? Can the United States gain at the expense of EC and non-EC firms?

Questions Touch U.S. Economy

These are complex and troubling questions, touching upon every sector of the American economy.

"The United States and the EC share a number of important economic relationships that indicate the degree of interdependence that has emerged between these two regions," says Gardiner.

To begin with, the United States and the EC comprise the world's two leading economic blocs, combining for about one-half of the world's gross domestic product and merchandise trade. The U.S. gross domestic product in 1989 totaled $3.531 trillion (1980 dollars) compared with $3.804 trillion for the EC. U.S. merchandise exports in 1989 totaled $345 billion (current dollars), or less than one-third that exported by the EC. As the EC has expanded from its original 6 members in 1957 to the current 12 members, so has the size of the market that is subject to EC laws and regulations.

"The United States is also a major investor in the EC," says Gardiner. "U.S. direct investment in the Community totaled $20.1 billion in 1970, accounting for 27 percent of total U.S. foreign investment that year. By 1988, U.S. investment in the EC rose to $128.5 billion and accounted for an astounding 39 percent of the total."

The critical connection between the two entities becomes clearer, though, when EC-U.S. trade is examined.

"The United States and the EC are each other's largest trading partners, with two-way trade totaling $160.9 billion in 1988," says Gardiner. "U.S. merchandise exports to the EC have risen sixfold, from $12.3 billion in 1970 to $75.9 billion in 1988."

During the same period, U.S. imports from the EC have increased nearly ninefold, from $9.7 billion to $85 billion. The United States held a fairly favorable trade balance with the EC until the mid-1980's when the situation was reversed and the United States became a net importer of EC merchandise. In 1986, the United States ran a trade deficit of $22.6 billion with the Community, but by 1988 the trade deficit was cut by nearly half to $11.5 billion.

While U.S. trade with the EC has continued its upward growth over the past three decades, the EC's share of total U.S. trade has diminished somewhat. Between 1970 and 1988, U.S. exports to the EC as a share of total U.S. exports to the world fell from 29 percent to 24 percent. Over the same period, the share of U.S. imports from the EC fell from 24 percent to 19 percent of all U.S. imports.

"Although this implies that a smaller share of U.S. trade will be affected by developments stemming from the 1992 program,

EC Finds Uniformity Difficult to Attain

When the 'Common Market' was created in 1957, the original six member nations looked forward to the free flow of goods and services that would eventually result.

They never pictured a time when it would take 10 years of protracted negotiations for member nations to agree on standards for fork-lift trucks, for instance. The principal point of dispute during a decade of debate on this issue? The pedal system.

Nor did they probably envision other problems that make the Common Market still incomplete—and incomprehensible at times:

- A European television manufacturer has to make 7 types of television sets to meet member country standards, requiring 70 engineers to adjust new models to individual country requirements.
- A person traveling through 10 of the EC member countries and returning home would end up with only 53 percent of the money he or she began with, because of fees charged for changing currency.
- Delays at borders due to customs checks result in a 750-mile trip from London to Milan taking 58 hours (excluding the Channel crossing).

Faced with these kinds of continuing contradictions to the original common market goal, the EC is on the move against an array of physical, technical, and fiscal barriers to free trade.

"The blueprint for this program of economic integration is contained in a 'white paper' entitled 'Completing the Internal Market,' issued by the EC Commission in June 1985," says ERS economist Walter Gardiner. "The report contains some 300 directives regarding the removal of trade barriers between member countries and a timetable for action with an overall deadline of December 31, 1992."

The program is to be implemented with three main goals in mind, he notes. The main one, of course, is the unification of the 12 member countries into a single market of 325 million people. But the initiative is also aimed at "ensuring that the single market is expanding and not stagnant, and ensuring that the market is flexible so that all resources will be free to move to areas of greatest economic advantage," Gardiner says.

He adds that the "Commission acknowledges the changes implied by this comprehensive program will cause considerable difficulties for some member countries, but the benefits to a fully integrated Community are so great they should not be denied to its citizens."

Perhaps the most notable signs of the continued lack of a unified market in the EC are the customs posts at the borders of EC nations.

"It is at the borders where the movements of goods and people are controlled because of differences in currencies, laws, and regulations that still exist between EC countries, including immigration controls, taxation, health and safety standards, and product pricing," says Gardiner. "The border controls impose a large cost on the movement of goods and people through time delays and fees which add to the cost of doing business and reduce efficiency."

Even if the border controls are removed, however, "the flow of goods, services, individuals, and capital would be impeded by divergent national legislation on regulations and technical standards," he says. "These include such things as product regulations; animal, plant, and human health standards; packaging and labeling requirements; and testing and certification procedures."

The third major area of EC action is on the fiscal front.

"Differences in taxation, both direct and indirect, among member countries are another concern of the Project 1992 directives," says Gardiner. "The removal of borders has profound implications for commerce because of these tax differentials."

Certainly, the EC has taken significant steps toward unity since signing its first accords.

"In its first 20 years of existence, the EC made much progress toward the goal of unifying its market, with the removal of tariffs and quotas among member countries, elimination of most restrictions on foreign exchange for trade and investment purposes, formation of a common external trade policy at the Community level, and some achievements in product standardization," says Gardiner.

But then came the oil price shocks of the 1970's, and the subsequent inflation, economic stagnation, and unemployment in Europe. These developments stalled the unification process as member nations took steps to protect their industries and markets. Progress toward full integration was further hampered by the addition of the United Kingdom, Ireland, and Denmark to the EC in 1973 and Greece in 1981, which brought about additional administrative and financial burdens.

"The process to restart the EC's program of completing the Common Market began in the early 1980's with a series of communications from the EC's executive arm, the Commission, and a number of special reports which pointed out the lack of integration in the EC.

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trade with EC countries still represents a sizable share of U.S. trade abroad," says Gardiner.

Agricultural trade is an important part of U.S.-EC trade, although its importance fluctuated substantially in the 1980's. U.S. exports of agricultural products to the EC totaled $2.3 billion in 1970, peaked at $11 billion in 1980, and fell 41 percent to $6.5 billion by 1985. The decline resulted largely from increased EC self-sufficiency for a number of agricultural commodities, combined with a strong U.S. dollar and high U.S. support prices.

"With the weakening of the dollar relative to European currencies near the end of 1985,

farm exports began to recover slightly in 1986," says Gardiner, "rising to $7.3 billion by 1988, but amounting to only two-thirds the record level set in 1980. The EC's share of total U.S. agricultural exports also declined during this period—from 32 percent in 1970 to 20 percent in 1988—with agriculture's share of U.S.-EC merchandise trade falling from 19 percent to 10 percent."

But viewing farm trade from the EC perspective, the United States has been the largest foreign supplier of agricultural and food products to the EC, with 1980 sales totaling $13.8 billion, or 22 percent of the EC total. A comparison with figures for 1988 indicates a reduced role for the United States ($8.9 billion or 14 percent of the total) while many other countries increased in importance—particularly Colombia, Thailand, Australia, and Yugoslavia.

Gardiner says that trade theory suggests one reason for fluctuations and declines in U.S. trade with the EC.

"It is interesting to note that between 1980 and 1988, EC imports of agricultural and food products from countries outside the EC rose only 3 percent while trade among EC countries rose 71 percent," he says. "This result is consistent with the theory about customs unions, such as the EC—namely that they are trade-creating for countries within the union and trade-diverting outside. This development is one of the reasons for concern by countries outside of the EC that the 1992 program could lead to a 'Fortress Europe.' "

In fact, this theory about customs unions is at the root of projections about near-spectacular gains for the EC after internal barriers to trade are completely removed.

"According to a $5 million study commissioned by the EC that took 2 years and involved 200 people, the benefits to the EC from completing the internal market could be quite substantial," says Gardiner. "These benefits include a 4 to 7 percent

The 12 Nations of the European Community Have a Population of 325 Million and a Land Area of 872,000 Square Miles

increase in gross domestic product, a 6 percent reduction in consumer prices, and an increase of between 2 to 5 million jobs."

He goes on to say that "the goal of Europe 1992 is to achieve a true common market as was originally envisaged by the founders of the European Community nearly 33 years ago. The reason for this initiative is the realization that physical, technical, and fiscal barriers have prevented the EC from achieving greater economic efficiency and economic welfare. 'Europe 1992' is an effort to remove those barriers which have frustrated the free movement of goods, services, people, and capital between the EC member countries." □

[Based primarily on information provided by economist Walter Gardiner of the Agriculture and Trade Analysis Division, Economic Research Service.]

REPORTS IN THE NEWS

An Annual Report On Family Farms

Single families own and operate 87 percent of the farms in the United States. Families own not only most of the small, noncommercial farms but also most of the large, commercial farms—which produce the bulk of the Nation's food and fiber. Owners of large farms typically control several million dollars worth of assets, primarily land and machinery.

This publication, which provides detailed analysis of the condition of U.S. agriculture, is based on the 12th annual report to Congress on the status of family farms.

The U.S. farm sector enters the 1990's in a much improved position after the financial difficulties of the 1980's, the authors of the report point out. The farm recession did not substantially alter the four-decade trend toward fewer, larger, more capital-intensive farms.

Farmers have reduced their debt, which peaked at $207 billion in 1983. Farm lenders have also written off bad loans. Today's farmers are cautious about assuming more debt and farm lenders are using more conservative lending policies compared with the late 1970's.

The authors of this report note that a new generation of American farmers is learning the secrets of surviving in a dynamic and competitive world economy. Today's farmers must understand the technical aspects of crop and livestock production and Federal farm programs. They must also master the implications for their farm businesses of changing Federal monetary and fiscal policies, international exchange rates, environmental regulations, tax laws, and emerging technologies.

The U.S. Farming Sector Entering the 1990's: Twelfth Annual Report on the Status of Family Farms, Thomas A. Carlin and Sara M. Mazie, editors. Published June 1990; 68 pages; $11 ($13.75 to non-U.S. addresses).

Water Allocation Tradeoff Values

Use of stream water for irrigation competes with its use as a recreational fishing resource. This report details a procedure for estimating the marginal value of water used for fishing that includes the cumulative downstream effects of upstream diversions.

Estimates of water's value as a recreational fishery resource vary significantly between regions, from just a few cents per acre-foot to more than $100. In most areas, the marginal recreational value of an acre-foot of water is less than $10. Values tend to be highest in the arid Southwestern States.

Much of water's recreational fishing benefits occur considerably farther downstream from the diversion for irrigation. In some areas, the recreational benefits forgone through the diversion of water may not be significant to those living nearby, the authors of this report say. However, as each acre-foot of water flows across many fishing sites along the course of a stream, its total recreational fishing value becomes important.

Irrigation is the single largest consumptive use of water in the United States. While farmers have rights to water, these rights can be sold—to cities, for instance.

Most river basins west of the Mississippi River are water short. This means that the available streamflow is insufficient to meet all the demands for water at current prices. The authors of this report note that past water allocation decisions seldom considered water's value in nonconsumptive uses and, therefore, cannot have been expected to have allocated water optimally.

Water Allocation Tradeoffs: Irrigation and Recreation, by LeRoy T. Hansen and Arne Hallam. Published June 1990; 24 pages; $8 ($10 to non-U.S. addresses)

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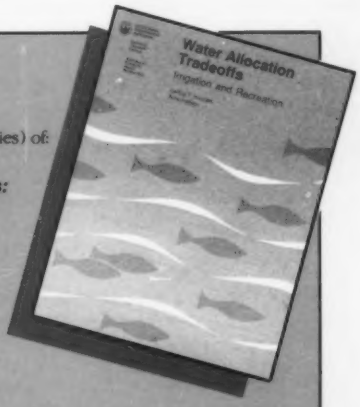

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One-Third of U.S. Farm Exports Go to East Asia

East Asia is the Number 1 regional market for U.S. agricultural exports, with more than one-third of fiscal 1990 sales.

Japan and a few of its neighbors make up East Asia. Sales of U.S. farm products to Japan, South Korea, Taiwan, and Hong Kong are estimated at $13.6 billion for the fiscal year that ended September 30. Japan is expected to account for $8.3 billion (61 percent of the East Asian total), South Korea $2.8 billion, Taiwan $1.8 billion, and Hong Kong $672 million.

"Rapid economic growth in East Asia has gradually shifted the world's economic center of gravity toward the Pacific," says economist Bill Coyle of USDA's Economic Research Service.

Total U.S. agricultural exports are estimated at $40 billion for 1989/90. Portions of the total, besides 34 percent for East Asia, include 16 percent for the European Community, 12 percent for Latin America and the Caribbean, 8 percent for Canada, 8 percent for the Soviet Union, 6 percent for the Mideast, 6 percent for Africa, and 2 percent for China.

'The world's economic center of gravity has shifted toward the Pacific.'

In 1989, East Asian countries accounted for substantial shares of U.S. exports of several commodities, including: beef and veal 81 percent, cattle hides 80 percent, pork 70 percent, cotton 49 percent, poultry meat 45 percent, fruits 45 percent, feed grains 41 percent, soybeans 39 percent, tobacco 32 percent, vegetables 27 percent, and wheat 15 percent.

East Asia's estimated farm-product purchases from the United States in 1989/90 total about 6 percent higher by value than the previous year. This rate of increase is substantially lower than the 10 percent rise in 1988/89 and the 28 percent jump in 1987/88. The region's economic boom has been moderating significantly, ERS economist Larry Deaton points out. In 1988 and 1989, Japan and the United States both exhibited declining economic growth rates.

Economic growth in both South Korea and Taiwan is expected to remain strong at over 6 percent for 1990. But both countries had double-digit growth rates in the 1980's. Hong Kong also has seen a marked slowdown from its 1980's growth rate. The British colony faces the prospect of capital flight because of the scheduled Chinese takeover in 1997, and this is likely to reduce growth prospects, according to another ERS economist, Lois Caplan.

U.S. Trade Balance Negative

During the past 5 years, South Korea, Taiwan, and Hong Kong (all classified as "newly industrialized economies") have run large trade surpluses with the United States, exceeding their surpluses with the rest of the world. The imbalances are due to persistent trade barriers and structural differences in these countries' economies (such as laws and regulations restricting the economic activities of foreign investors), says ERS economist Andy Jerardo.

The higher oil prices resulting from the Persian Gulf crisis of recent months are not likely to have a significant effect on U.S. farm exports to East Asia, according to ERS economist Carol Goodloe. Additional spending on oil imports may reduce the resources available for imports of farm products, but most agricultural imports in East Asia are not very responsive to changes in prices or income.

An increase in the volume of U.S. agricultural exports to East Asia in 1990/91 was forecast several months ago, with lower prices on some commodities expected to restrain growth in the value of the exports. The Persian Gulf crisis is a new factor in the picture since those forecasts.

A stronger dollar relative to the yen had been dampening export growth to Japan for certain high-value and processed products that benefited from a weaker dollar for several years. Nevertheless, the United States accounted for 37 percent of Japan's agricultural imports in 1989, up from 35 percent the year before. The U.S. provided 84 percent of the corn Japan imported that year, 75 percent of the soybeans, 71 percent of the sorghum, 55 percent of the wheat, 43 percent of the cotton, 43 percent of the beef and veal, and 38 percent of the poultry meat.

Animal products are expected to make up about 27 percent of the value of fiscal 1990 U.S. farm exports to East Asia, up slightly from 26 percent in 1989. The East Asian countries are importing larger amounts of finished meat products to satisfy increased consumer demand. Japan's greater meat imports mean less demand for imported feed grains and soybeans.

U.S. beef and veal exports to Japan are forecast to be substantially higher for fiscal 1990 because of expanded quotas stemming from the 1988 U.S.-Japan beef and

citrus agreement. However, much lower unit values likely will lead to only a small increase in the total value of the exports. Japan also is buying more of the cheaper cuts of beef and fewer of the expensive cuts. But Japan remains our largest market for beef.

Under the 1988 agreement, Japanese beef import quotas were increased to 394,000 tons for the year ending March 31, 1991. Then the quotas will be removed and replaced by tariffs. Japan removed quotas on some prepared beef products last spring, but higher tariffs on some of those products are likely to curtail imports.

Australia, traditionally a supplier of grass-fed beef, is now competing with the United States as a seller of grain-fed beef to Japan (see box on next page).

U.S. beef exports to South Korea jumped in fiscal 1989 to 19,000 tons, valued at $73 million, benefiting from Seoul's partial liberalization of beef imports. U.S. beef exports to South Korea were forecast to continue increasing in fiscal 1990, as well.

U.S. pork exports to Japan (the leading market for U.S. pork) rose 24 percent in fiscal 1989 to 46,000 tons and were expected to show even more gains in fiscal 1990. Greater Japanese imports of chilled pork, especially U.S. loins and tenderloins, are bolstering sales. Japan also reduced tariffs on sausages in April 1989.

U.S. poultry meat exports to East Asia for fiscal 1990 were projected to continue to rise, although less rapidly than in 1989 and 1988. Japan and Hong Kong are the region's largest markets for U.S. poultry meat. Taiwan bans chicken imports but allows some turkey meat imports from the United States. South Korea also bans poultry meat imports, except for canned products and turkey meat.

Japan's purchases of U.S. poultry meat in fiscal 1990 were forecast higher because of sustained strong demand and little expected growth in domestic poultry output. U.S. poultry meat exports, however, are facing increased competition from Thailand, China, and several new suppliers, including Malaysia, Mexico, and Peru.

The value of U.S. cattle hide exports to East Asia in fiscal 1990 was expected to rise slightly from 1989, with increased shipments to South Korea, Japan, and Taiwan. South Korea's purchases from the United States grew by 14 percent in 1989. But a significant portion of South Korea's shoe industry has already moved to countries with lower labor costs. Japan has increased its purchases of cattle hides from Australia and New Zealand.

Australia Challenging U.S. In Grain-Fed Beef Market

The United States has greatly increased its beef exports to East Asia during the last 2 years because of relaxed restrictions on beef imports by Japan and South Korea.

But Australia is also benefiting from the trade liberalization measures and making inroads into what has been considered a U.S. specialty—the grain-fed beef market.

The Japanese, in fact, are providing much of the capital for an expansion of Australia's cattle feeding industry, to produce beef primarily for the Japanese market, according to William Gorman, an agricultural economics professor at New Mexico State University who has researched this topic for ERS.

In early 1990, the Australian cattle feedlot industry had a capacity of about 600,000 head. Australian officials say that capacity will increase to about 1 million head in two years' time, a growth rate that Gorman believes is overly optimistic. The industry is rapidly expanding in response to opportunities to export larger quantities of grain-fed beef to Pacific Rim markets—mainly Japan and, to a lesser extent, South Korea.

"The Australian grain feedlot industry is small compared with that of the United States (less than 10 percent)," Gorman says, "but it is large enough to have an impact on the grain-fed beef trade today and a greater impact in the future if expansion plans materialize."

Australia is known for its grass-fed beef and the United States more for its grain-fed beef. The United States has a cattle inventory four times as large as Australia's—about 100 million head compared with nearly 25 million. But Australia exports about 50 percent of the beef it produces, while the United States exports less than 5 percent of its beef. The United States has a much larger domestic market, with a population 15 times as large as Australia's.

The Australian cattle feedlot industry began in the 1960's on a limited basis. In the early 1970's, several large, modern feedlots were constructed. They were financed partly with Japanese capital and most of the beef they produced was destined for the Japanese market.

But Australia's commercial cattle feeding industry was nearly wiped out in 1974, when cattle prices fell sharply and Japan banned beef imports. Most of the large feedlots closed down.

Later in the 1970's, however, Australian cattle feeding staged a comeback. By 1981, the number of cattle in commercial feedlots had climbed to 120,000.

After Japan signed its beef-import agreement with Australia and the United States in 1988, the Australian feedlot industry began expanding in earnest. The feedlot boom has encountered some hurdles, however. Several feedlot construction projects have been delayed or cancelled because of Australia's strict environmental regulations. "Laws governing pollution of ground water, surface water, and the air are becoming more stringent, andthe bureaucratic approval process can take several years," Gorman says.

Since 1987, the Australian government has had a program that provides for

Wheat Exports Lower

U.S. wheat exports to East Asia were forecast to decline slightly in fiscal 1990, after slipping 13 percent the previous year. Exports in 1990 could be about 1 million tons below the 6 million tons shipped in 1988. And wheat export prices also declined from 1989. U.S. wheat sales to Japan in fiscal 1990 were forecast to turn down slightly from last year's reduced level of 2.7 million tons. Rising Japanese imports of wheat-based processed products continue to limit demand for U.S. wheat in bulk.

The volume of U.S. feed grain exports to East Asia was forecast to surge in fiscal 1990 after declining 7 percent in 1989. Increased volume was expected to lead to higher total value, despite somewhat lower prices.

U.S. feed grain shipments to Japan, the region's largest user, likely will surpass fiscal 1988's total of 17.3 million tons, mainly because of a large jump in corn sales. U.S. corn shipments to South Korea in 1990 were projected to be up substantially from a record 4.6 million tons in 1989. U.S. feed grain exports (mainly corn) to Taiwan were also expected to increase, mainly because of greater feed demand in the hog and poultry sectors.

The value of U.S. exports of oilseeds and products to East Asia continued to fall in fiscal 1990, after a 3 percent decline in 1989. Soybean shipments were larger in fiscal 1990, but prices were much lower. The volume of U.S. soybean exports to the region recovered in 1990 from the depressed total of 5.5 million tons shipped in 1989.

The volume of U.S. cotton exports to East Asia in fiscal 1990 was forecast to increase modestly, with value also likely to be up because of higher prices. Imports by the developed East Asian countries also had increased in 1989.

the labeling of grain-fed beef. Some 675 feedlots with a total capacity of more than 500,000 head had been certified to participate in this labeling program as of early 1990.

More than 60 percent of Australian grain-fed beef was marketed in Japan and South Korea in 1988. (Some is also sold in the European Community and Southeast Asia.) In 1989, the proportion sold in East Asia jumped to nearly 80 percent.

Eight Japanese firms have invested in or announced plans for cattle feedlots in Australia. The capacity of these feedlots—in operation, under construction, or planned—has been estimated at more than 100,000 head, Gorman says. As of April 1989, Japanese companies also had 100 percent ownership of three cattle slaughtering plants and 40 percent ownership of another.

The major cattle breeds raised in Australia are not noted for their meat tenderness or the desirable quality of marbling (fat deposits in the muscle tissue). Therefore different breeding lines are being sought for the feedlot industry. "Australia does have, however, enough animals of the right breeds to supply a large share of the Japanese grain-fed beef market," Gorman says.

Marbling, tenderness, color and meat flavor are important factors in the Japanese beef market. In general, the greater the marbling, the higher the price. The Japanese market also prefers heavier beef carcasses than those typically produced for the U.S. and Australian domestic markets. The cattle are kept in feedlots for a longer period of time to produce the larger carcasses.

The United States has several advantages over Australia in the competition to sell beef to Japan and other markets, Gorman says.

Those advantages include long experience in raising grain-fed beef cattle, huge quantities of grain available for feeding, large numbers of the right kinds of cattle to produce marbled beef, a surplus capacity of feedlots and packing plants, and an excellent railway and highway system for rapid movement of cattle, feed, and meat, he says.

"Australia, however, has limited experience and capacity in the feedlot industry, relatively fewer cattle with the right genetic traits for grain feeding, fewer supplies of feed grains and harvested roughage, and a less developed domestic transportation system," Gorman says. However, these shortcomings probably could be overcome, he adds.

Not all the Japanese investments have been in Australia. Japanese companies have invested in the U.S. cattle industry to a certain extent, though less than in Australia, Gorman says.

"Australia has the potential to be a strong competitor in the grain-fed beef market in Japan," Gorman says. He adds that Australia's future as an exporter of grain-fed beef will also depend on how returns from cattle enterprises compare with returns from sheep and wheat.

"It is reasonable to expect that both Australia and the United States will have large shares of the Japanese grain-fed beef market," Gorman says.

East Asian Diets Changing

Export markets are being affected by changing diets in East Asia. Consumption of animal protein continues to increase, at the expense of rice and other starches. These changes are not uniform throughout the region, however. Pork and poultry consumption remains about twice as high in Taiwan as in Japan and South Korea. The Japanese are known for their higher rate of consumption of fish.

Americans consume twice as much meat per capita as the Taiwanese, more than three times as much as the Japanese, and more than four times as much as the South Koreans. But all three East Asian countries eat more vegetables per capita than the United States and have fish and shellfish consumption rates four to five times the U.S. rate. South Korea's rice consumption per capita is 20 times the U.S. level and rice consumption in Japan and Taiwan is more than 10 times the U.S. rate.

Japan, South Korea, and Taiwan continue to pursue rice policies of self-sufficiency. Their rice sectors are characterized by high stocks, inadequate storage capacity, large budget expenditures, and lower consumption, says ERS economist Sophia Huang.

The prospects are good for continuing growth in sales of U.S. agricultural products to East Asia, Caplan says. The positive factors include recent steps to remove restrictions on imports and a growing interest in consuming a wider variety of foods. Continued healthy economic growth is expected in the region, despite some economic strains, including rising inflation rates and labor shortages. □

[Based primarily on the July 1990 Pacific Rim Agriculture and Trade Report, produced by the Agriculture and Trade Analysis Division, Economic Research Service, and coordinated by economist Carol Goodloe.]

U.S. Apple Exports Face Uphill Climb

In the 1989 calendar year, the farm value of U.S. apple production surpassed $1 billion, making apples the Nation's third most valuable fruit crop (after grapes and oranges). Although apples are produced throughout the country, 10 States raised 89 percent of the 1989 crop, with the top 3 States—Washington, New York, and Michigan—accounting for 69 percent of the total.

Heavy plantings in the late 1970's and early 1980's have boosted U.S. apple production in recent years, and will likely continue to do so in the next few years. "These ample supplies have come on the market at a time when other major producing nations, such as Chile, New Zealand, and South Africa, have dramatically expanded their output," note economists Amy Sparks and Boyd Buxton of USDA's Economic Research Service and James Seale of the University of Florida. "Their location in the Southern Hemisphere enables these producers to ship fresh apples when the United States is drawing on cold storage supplies. Since consumers generally prefer fresh apples, such exports enjoy an advantage in markets where they compete with U.S. storage apples."

Producers are making use of USDA's Targeted Export Assistance program.

The combination of higher overall world production and stable domestic demand is forcing U.S. prices down. Moreover, U.S. apple exports have declined over the last few years, falling from 305,428 metric tons in the 1980/81 marketing year to 249,238 metric tons in 1988/89.

"The worldwide situation of growing supplies and relatively stable demand means the United States will face keen competition in export markets," Sparks says.

The U.S. Competitive Position

Although they represent only one quarter of global imports, the markets of Canada, the United Kingdom, Hong Kong, and Singapore took 82 percent of U.S. apple exports in 1987. Analyzing data from a recent research study, the economists determined which suppliers are likely to increase their shares of these markets—and the probable changes in demand quantities resulting from price fluctuations—in the foreseeable future.

The relative market shares of suppliers to these markets have changed many times since 1962, reflecting suppliers' competitive positions and trade restrictions that alter both prices and the flow of trade.

Canada's apple imports trended upward from 1962 through 1987, and the United

States has been the dominant supplier. However, U.S. exports to this market declined steeply between 1981 and 1985, a trend precipitated by a decrease in total Canadian imports and an increase in its imports from New Zealand and Chile. U.S. exports recovered in 1986 and 1987, largely because of North America's record 1987 crop and consequently lower prices in the United States and Canada.

In 1988, Canada imposed antidumping restrictions against the United States, claiming that during part of the 1987 marketing season some U.S. apples had been sold for less than the normal value. (These restrictions establish minimum price requirements rather than limit quantities.)

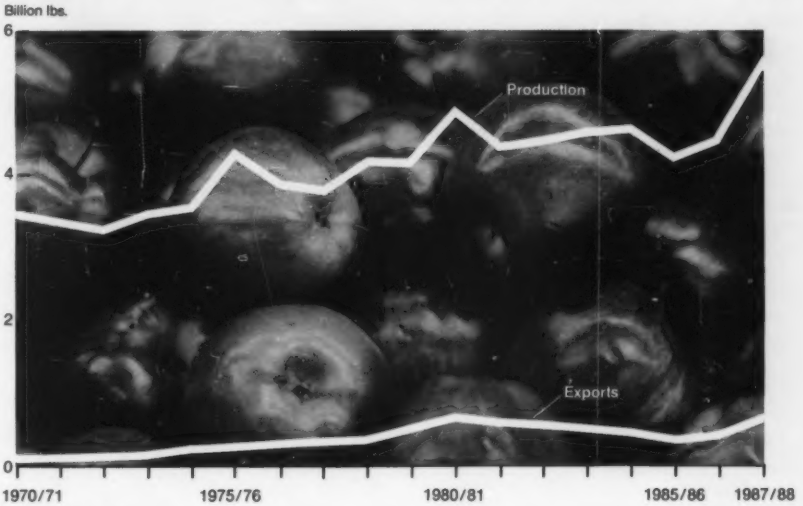
Under the Special Imports Measures Act (SIMA), the Canadian Government sets a "normal value" for U.S. red and golden delicious apples—an estimated cost of production plus a profit of 8 percent. While the higher quality fruit can sell at this price, lower quality fruit may not.

To protest apartheid, the Canadian Government instituted a ban on agricultural products from South Africa in 1986. But Sparks, Seale, and Buxton note the research suggests that if Canada reverses this decision, and if its market for apples continues to grow, South Africa would likely capture a larger market share while the United States would only maintain its current share. The results show that as the prices charged by the United States and South Africa drop, exports from these countries to Canada would rise.

Although the European Community (EC) produces large quantities of apples for trade among its member nations, the apples it imports are usually of better quality. Because EC countries typically do not use controlled atmosphere storage, their stored apples do not retain their freshness.

In 1988, the EC instituted a quota on apple imports which, although aimed at Southern Hemisphere suppliers, also had a detrimental effect on U.S. apple exports. The U.S. Government took the issue to the General Agreement on Tariffs and Trade, which ruled against the quota. The EC has now negotiated voluntary restraint agreements with Chile, South Africa, Australia, and Argentina. No agreement between the EC and the United States was necessary because the United States is only a residual EC supplier.

U.S. Apple Production and Exports Have Been Climbing



Season beginning August 1.
Source: Commodity Economics Division, ERS, USDA.

Within the EC, the **United Kingdom** is the primary market for U.S. apples. Total U.K. imports of fresh apples showed a marked upward trend from 1962 through 1987. But even though the United Kingdom purchased a sizable 6.8 percent of all U.S. fresh apple exports in 1987, this amount comprises only a small proportion of all U.K. apple imports. France's share of this market soared from next to nothing in 1962 to 56 percent by 1987. Imports from South Africa, the second largest supplier, remained stable throughout the study period.

The results of the study indicate that as this market grows, the shares of the major suppliers—the United States, New Zealand, France, and South Africa—would all increase, but that of the United States would rise the most.

Hong Kong's total imports of fresh apples climbed sharply through the 1960's, leveled off in the 1970's, slipped in the early 1980's, and rebounded in 1987. Over the years, Hong Kong's imports from China have declined, and those from the United States have increased—indeed, by 1980 the United States had supplanted China as Hong Kong's No. 1 supplier. More recently, Chile has become the market's second largest supplier. Minimal trade restrictions govern apples imported into Hong Kong.

"The study indicates that, as Hong Kong's market for fresh apples expands, both the United States and China will increase their market shares, although the U.S. share will rise by a larger percentage," state Sparks, Seale, and Buxton. "South Africa's share, on the other hand, will decrease."

In the event of a price decline, the economists note, U.S. and South African exports to the Hong Kong market would rise by a

percentage greater than the drop in price. The percentage rise in Chinese shipments, on the other hand, would not be as large as the decline in price.

Although it purchased less than 5 percent of all U.S. apple exports in 1988, **Singapore** is one of the major markets for U.S. apples. Singapore's total imports of fresh apples peaked in 1981 and have declined since then. China was an important supplier to this market until 1970, when its shipments began dropping substantially.

U.S. exports to Singapore climbed from almost nothing in 1970 to over 12,000 metric tons in 1984 and 1985, and the United States has become the market's largest supplier. Nevertheless, from 1985 through 1987, U.S. shipments declined and those from Australia rose. Australia and New Zealand have now emerged as the United States' major competitors for this market. Like Hong Kong, Singapore places only minimal restrictions on apple imports.

For at least 10 years, **Taiwan** has been another important Far Eastern outlet for U.S. apples. Although Taiwan imposes quotas on other suppliers' apples, it accords the United States virtually unlimited market access.

U.S. Apple Exports in the Near Future

U.S. apple producers are attempting to increase demand for their product in a variety of ways. They are, for example, pursuing advertising and promotion campaigns to boost domestic consumption, and some evidence suggests the campaigns are working. In the 1985/86 and 1986/87 marketing years, U.S. consumption totaled 1.90 and 1.99 million metric tons, respectively. But in 1988/89, it climbed to 2.64 million.

Expanding domestic production, rising imports, and stable demand at home are pushing down prices for U.S. apples. These lower prices are making it hard for U.S. apple farmers to meet their costs of production and increasing the desirability of extending markets abroad.

— Photo courtesy of the International Apple Institute

Apple producers are making use of USDA's Targeted Export Assistance (TEA) program to expand their exports. For example, the Northwest Horticulture Council is combining $2.85 million in TEA funds with about $871,000 from its own budget to promote exports in fiscal 1990.

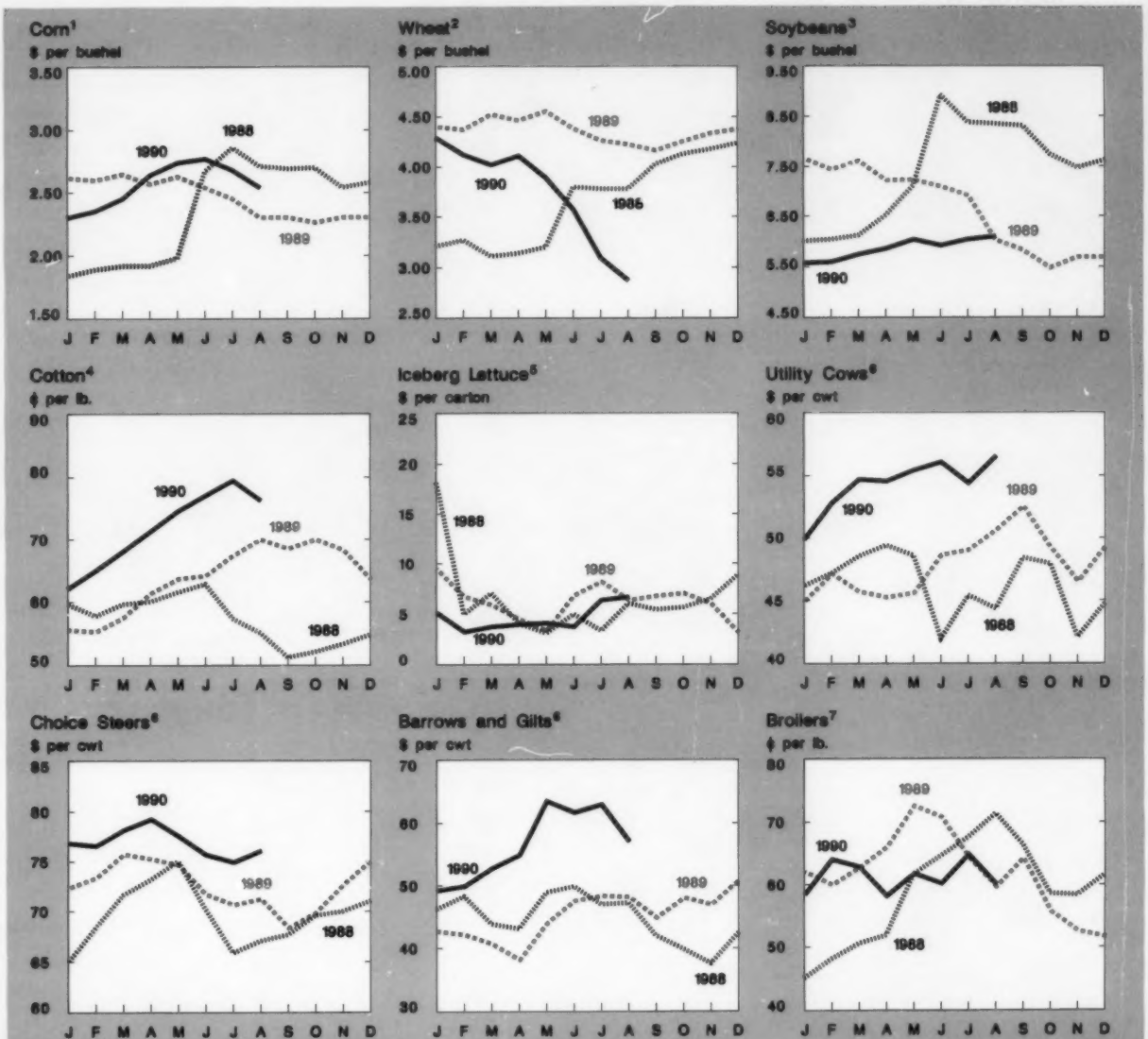
The research study shows that as the Canadian, Hong Kong, and U.K. markets grow, the United States will expand its share of the Hong Kong and U.K. markets and hang on to its share in Canada. While Singapore offers some export opportunities, the United States is unlikely to maintain its share as this market grows. □

[Based primarily on information provided by Amy L. Sparks and Boyd M. Buxton of the Commodity Economics Division, Economic Research Service, and James L. Seale, Jr., Assistant Professor at the University of Florida.]

FARMLINE TRENDS

Monthly Price Monitor

USDA's August 1990 inflation-adjusted index of farm prices decreased 1.3% from July but was 3.4% above its year-earlier level. Corn declined to $2.54 a bushel, the lowest since March, and wheat continued downward to $2.87 per bushel, the first time below $3 since 1987. Soybeans rose to $6.09, their highest level since July 1989. Cotton fell to 76.3¢ per pound, while lettuce continued upward to $6.64, the highest since October 1989. Among meat animals, utility cows jumped to $56.50, a hike of over $2, while Choice steers increased to $76.10. Barrows and gilts fell to $57.07, losing almost $6 per hundredweight. Broilers were down to 60¢ per pound.

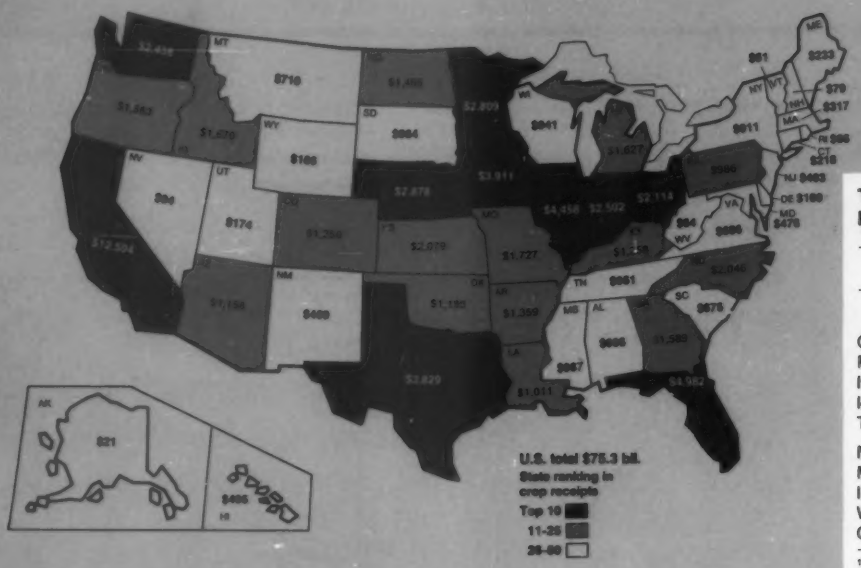


[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California-Arizona. [6]Omaha. [7]Wholesale, New York. All prices shown are monthly averages.

Cash Receipts from Farm Marketings: State Estimates for 1989

1989 Cash Receipts from Crops

All figures in millions (000,000)



Top Ten States in 1989 Crop Receipts[1]

	1987	1988	1989
	$ millions		
California	11,385	12,176	12,504
Florida	4,207	4,688	4,982
Illinois	4,114	3,927	4,458
Iowa	3,821	3,787	3,911
Texas	3,035	3,689	3,829
Nebraska	2,196	2,409	2,878
Minnesota	2,413	2,649	2,809
Indiana	2,063	2,320	2,502
Washington	1,880	2,196	2,438
Ohio	1,982	2,025	2,114

[1]Includes receipts from commodities placed under CCC loans minus value of redemptions.

1989 Cash Receipts from Livestock, Dairy, and Poultry

All figures in millions (000,000)

Top Ten States in 1989 Receipts from Animal Products

	1987	1988	1989
	$ millions		
Texas	6,090	6,562	6,864
Nebraska	4,941	4,988	5,643
Iowa	5,244	5,390	5,197
California	4,442	4,682	5,123
Wisconsin	4,217	4,215	4,339
Kansas	4,058	4,124	4,247
Minnesota	3,573	3,418	3,720
Arkansas	2,083	2,278	2,661
Colorado	2,262	2,332	2,649
Pennsylvania	2,330	2,666	2,602

All data subject to revision. Data were provided by economist Bob Williams of the Agriculture and Rural Economy Division, Economic Research Service.

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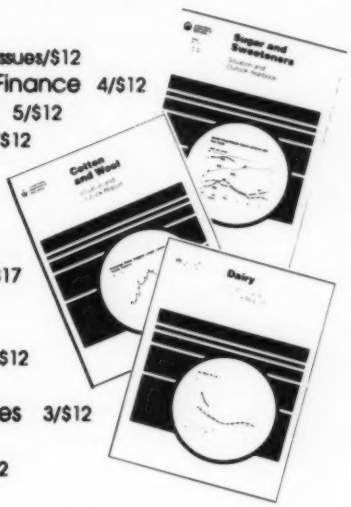

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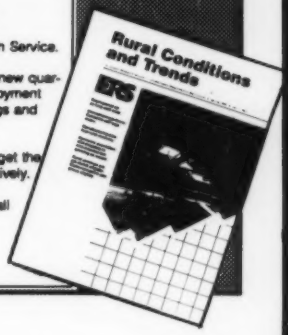

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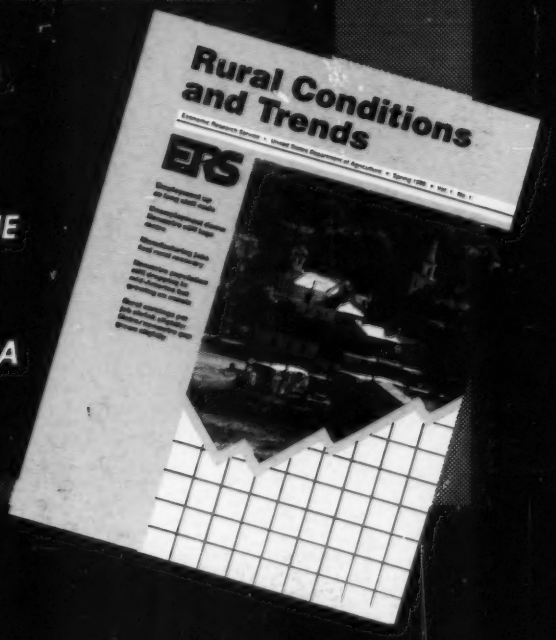
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